No. 98-277

Supreme Court, U.S.
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IN THE
Supreme Court of the United States
OCTOBER TERM, 1997

BRUCE A. LEHMAN,
Commissioner of Patents and Trademarks,
Petitioner,

v.

MARY E. ZURKO, THOMAS A. CASEY, JR.,
MORRIE GLASSER, JUDITH S. HALL, CLIFFORD E. KAHN,
ANDREW H. MASON, PAUL D. SAWYER,
LESLIE R. KENDALL, and STEVEN P. LIPNER,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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RESPONDENTS' BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether the Administrative Procedure Act bars the United States Court of Appeals for the Federal Circuit from applying the long-standing "clearly erroneous" standard to review of fact-finding by the Patent and Trademark Office?

CERTIFICATE OF INTEREST

Counsel for Respondents, Mary E. Zurko, et al., hereby certifies pursuant to S. Ct. R. 29(6) as follows:

1. The individuals listed below are the nominal parties in this matter because applications for patents must be in the names of natural persons who are the inventors. 35 U.S.C. 111:

> Mary E. Zurko, Thomas A. Casey, Jr., Morrie Glasser, Judith S. Hall, Clifford E. Kahn, Andrew H. Mason, Paul D. Sawyer, Leslie R. Kendall, and Steven B. Lipner.

2. The name of the real party in interest to whom the inventors have assigned their interest in the invention, 35 U.S.C. 152, is:

> COMPAQ COMPUTER CORPORATION, a Delaware corporation

3. There is no parent company of Compaq Computer Corporation. The sole nonwholly owned subsidiary of Compaq Computer Corporation is:

> COMPAQ COMPUTER TECHNOLOGIES (CHINA) CO. LTD., a joint venture

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RESPONDENTS' BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

PROCEEDINGS BELOW

Respondents filed an application for a patent with the Patent and Trademark Office ("PTO") on February 13, 1990, U.S. Patent Application No. 07/479,666 ("the '666 application"). After a preliminary narrowing of the claims, a PTO examiner rejected them as "obvious" under 35 U.S.C. 103. On appeal to the Board of Patent

Appeals and Interferences ("PTO Board" or "Board"), the examiner's decision was affirmed. *Ex parte Zurko*, No. 94-3967 (Bd. Pat. Apps. & Int. Aug. 4, 1995). Respondents appealed directly to the United States Court of Appeals for the Federal Circuit pursuant to 35 U.S.C. 141, and a Panel of that court reversed, unanimously holding that the Board's conclusion of obviousness was based on "clearly erroneous" findings of fact. *In re Zurko*, 111 F.3d 887 (Fed. Cir. 1997). On rehearing, the *en banc* court again reversed the Board and unanimously held that "section 559 of the Administrative Procedure Act permits, and *stare decisis* warrants, our continued application of the clearly erroneous standard in our review of these fact-findings." *In re Zurko*, 142 F.3d 1447, 1449 (Fed. Cir. 1998).

STATEMENT OF FACTS

Respondents' '666 application sought patent protection for an invention which improves security in computing system transactions. Its claims recite a multi-step method for assuring that the command given on an open, unsecure route (an "untrusted" pathway) is confirmed through a secure route ("trusted" pathway) before it is implemented. User verification through a secure route prevents unauthorized users from misrepresenting the sender's commands. Since sensitive information such as credit card numbers and personal finances are transmitted through computing systems (*e.g.*, the Internet), the need for reasonably priced protection will increase as computer-based transactions increase. Respondents' invention meets this need.

The Information Discloure Statement filed by respondents during prosecution of the application listed several references and the Examiner cited two of them. The first cited reference was to the UNIX system which parsed commands (by interpreting a keyboard entry) in an untrusted code and passed the parsed command to trusted code for execution. The second, FILER2, repeated back potentially dangerous commands, such as commands that would erase or overwrite a file, to the user for confirmation, but did so only through an untrusted pathway. Neither reference, however, disclosed a repeat-back command in a secure (*i.e.*, trusted) system.

The methods disclosed in the prior art differ from the claims of the '666 application in several respects which the Federal Circuit concluded would not have been obvious under 35 U.S.C. 103. Respondents' invention "outsources" the work of parsing to untrusted code while using the security of the trusted code to communicate user verification. That is, unlike the prior art, respondents achieve verification by parsing a command in an untrusted program and by establishing a two-way pathway before performing a confirmation or repeat-back with trusted code over the two-way trusted pathway. The claimed invention permits the parsing chores to be delegated to the untrusted computing environment while maintaining the benefits of the trusted code. This delegation reduces the amount and complexity required of the trusted codes. These differences are summarized by the following Table: [1]

---

[1] This table (with clarifying modifications) was presented to the Federal Circuit Panel below; the citations are to the appendix to appellants' brief. Brief for Appellants to Federal Circuit 16 (May 17, 1996).

COMPARISON OF PRIOR ART DISCLOSURES WITH ZURKO CLAIM

	Parsing of Commands		Repeat-back of Commands	
System	Untrusted Code	Trusted Code	Untrusted Pathway	Trusted Pathway
UNIX (A95) (prior art)	✔			
FILER2 repeat-back (A103) (prior art)			✔	
UNIX + FILER2 repeat-back (PTO's proposed combination: A6-A8)	✔		✔	
Prior trusted systems (A29)		✔		
Respondents' Claimed Invention (A18)	✔			✔

As this table illustrates, the UNIX system made no use of repeat-back commands whereas FILER2 was limited to repeat-back commands in an untrusted environment. Despite these differences, the Board concluded that the primary missing link—establishing a trusted path and then communicating the repeat-back over it with a command parsed in untrusted code—was "inherent or implicit" in the prior art. *In re Zurko*, 111 F.3d at 888 (quoting Board decision).

On review, a panel of the United States Court of Appeals for the Federal Circuit unanimously reversed the PTO's denial of a patent because the Board "has not pointed to any [prior] teaching of performing repeat-back commands in a trusted and secure system." *Id.* at 889.

After examining the record evidence, the court concluded that:

> [N]either UNIX nor FILER2 reaches either explicitly or implicitly communicating with the user over a trusted pathway . . . . In addition, the Board also clearly erred in finding that UNIX, FILER2 and the record teach communicating with the user over both a trusted *and* an untrusted path as claimed [by the Board]. Indeed, the Board's findings that one skilled in the art knew that communications in trusted environments must be over trusted paths *teaches away* from using both a trusted and an untrusted path. (*Id.* at 889-90, emphasis in original and added.)

The Board's determination that respondents' claimed method for improving the security of computer systems would have been obvious could not be sustained because it was based on "impermissibly used hindsight" and "clearly erroneous" factual findings. *Id.* at 889. But the Panel did not consider whether the Board's decision would have been upheld or reversed had its findings been reviewed using the "more deferential standard as required by the Administrative Procedure Act, 5 U.S.C. 706(2) (1994)" because modification of the court's long-standing "clearly erroneous" precedent could be made by "only the court sitting *en banc*." *Id.* at 889 n.2.

Accepting petitioner's request for rehearing, the Federal Circuit, sitting *en banc*, considered whether "Patent and Trademark Office fact-findings [should be reviewed] under the Administrative Procedure Act standard of review instead of the presently applied 'clearly erroneous standard.'" *In re Zurko*, 116 F.3d 874 (Fed. Cir. 1997). The court noted that this issue had been created by the "Commissioner [who] has campaigned aggressively" but not consistently for application of one or more of the deferential standards set forth in 706(2) of the APA—arguing sometimes for the "substantial evidence" standard under subsection (E), other times for the "arbitrary and capricious" test under subsection (A), and still others for either or both to be applied. *In re Zurko*, 142 F.3d at

1449 (listing cases). The court reviewed the APA's development, structure and terms and interpreted 559 as continuing statutory or common law standards to the extent that such pre-existing standards were "more searching" and thus were "additional requirement[s]" and had "not since been statutorily modified" by the APA. *Id.* at 1452. From its review of the patent acts from 1790 to the present, their provisions for judicial review, and the review standards applied by the courts during this time, the Federal Circuit found that its predecessor courts generally applied a "clearly erroneous" standard when reviewing PTO fact-finding, although not always using identical language in applying it. *Id.* at 1454. Moreover, in all cases the reviewing courts had "require[d] more rigorous review than is required by the APA" under 706(2), and in none of the pre-1946 cases had they "used the substantial evidence . . . [or] arbitrary and capricious standard[s]" of the APA. *Id.* Finally, "[f]ollowing Congress' enactment of the APA, the CCPA continued to review Patent Office decisions as it had done before 1947 . . .," *id.* at 1455, and the Federal Circuit has consistently applied the "clearly erroneous" standard since its formation in 1982.

As a result, the Federal Circuit, *en banc*, unanimously "conclude[d] that [its] more searching clear error standard of review is an 'additional requirement' that was 'recognized' in our jurisprudence before 1947, which we therefore continue to apply under the exception in section 559." *Id.* at 1457. This conclusion was "buttressed by the principle of *stare decisis*." *Id.* The Commissioner had "made no suggestion that [the] current standard of review is unworkable, intolerable, prejudicial, burdensome, or even that it adversely affects the administration of the patent system." *Id.* at 1458. The court therefore held that it would continue to review PTO fact-findings under the "clearly erroneous" standard and that the decision of the Board should be reversed.

REASONS FOR DENYING THE PETITION

For the past five years, the Commissioner of Patents and Trademarks has engaged in an unremitting campaign to increase his power over patentability claims by seeking to displace the "clearly erroneous" standard of judicial review of PTO Board of Patent Appeals and Interferences fact-finding with a more deferential standard under Section 706(2) of the APA. 5 U.S.C. 706(2). However, after hearing the Commissioner's appeal *en banc*, the Federal Circuit unanimously upheld the application of the "clearly erroneous" test because its continuation was authorized by Section 559 of the APA as an "additional requirement" imposed at the time the Act was adopted. It is this settled law, first applied to the review of patentability determinations by this Court in *Morgan v. Daniels*, 153 U.S. 120, 125 (1894), that the petitioner seeks to overturn.

The petitioner fails to show that there is any basis for his claim that the APA requires rejection of the more demanding "clearly erroneous" standard of review of PTO fact-finding.[2] His argument is contrary to the plain lan-

[2] In addition, this matter is not ripe for review because there was no finding below that the Board's decision would be upheld applying the APA standards in 706(2). The Panel made clear that it made no such determination (111 F.3d at 889 n.2); the order for rehearing did not encompass that issue (116 F.3d at 874) although specifically raised by respondents in opposing the Commissioner's motion for rehearing (Brief of Appellants Opposing Petition for Rehearing 4-6 (June 20, 1997)); and the contrary statement in the introduction of the *en banc* court's opinion—"[c]oncluding that the outcome of this appeal turns on the standard of review used" (142 F.3d at 1449)—is an erroneous assumption based neither on the record nor any argument made to the court. See *United States v. Freuhauf*, 365 U.S. 146, 157 (1961) (advisory opinion if the issue "not necessary for decision"); *Allen v. Wright*, 468 U.S. 737, 751, *rehearing den.*, 468 U.S. 1250 (1984) (relief requested "must be 'likely' to follow from a favorable decision"); see also *In re Napier*, 55 F.3d 610, 614 (Fed. Cir. 1995) (standard of review irrelevant because Board's fact-finding could be affirmed under more stringent standard); cf. *Texas v. United States*, 118 S.Ct. 1257, 1259 (1998) (matter "not ripe" if it "may not occur at all").

guage of Section 559 of the APA, to the purpose and structure of the Act, to both contemporaneous and current interpretations of Section 559, and to the unanimous views of the court which has congressionally assigned responsibility for bringing uniformity to review of patentability issues. The current system of meticulous review by an appellate court with specialized jurisdiction has been a remarkable success, bringing consistency and rationality to complex patent questions. No reason has been given by the petitioner for changing this well-functioning system.[3]

I. THE FEDERAL CIRCUIT UNANIMOUSLY FOUND THAT THE "CLEARLY ERRONEOUS" STANDARD HAS BEEN APPLIED TO PTO BOARD FACT-FINDING REVIEW FOR OVER A CENTURY

Close examination of PTO fact-finding by reviewing courts under the "clearly erroneous" standard has been the rule since *Morgan v. Daniels*, 153 U.S. at 129 ("testimony as a whole is not of a character or sufficient to produce a clear conviction that the patent office made a

[3] There are, however, several statements in petitioner's "Reasons For Granting The Petition" which are not in dispute. These include: (a) that the PTO and its Board are "agencies" within the meaning of the APA and thus *generally* are subject to the APA's provisions on judicial review set forth in 706(2) (Solicitor General's Brief 11-12, 13-14) ("SG Br."); (b) that the patent laws grant a "dissatisfied" applicant two routes for review, namely, direct review by the Federal Circuit or, alternatively, initial review before a District Court followed by an appeal to the Federal Circuit (SG 12 & 13 n.3); (c) that the patent laws otherwise do not specify any specific standard of review (SG Br. 13); (d) that 706(2) generally provides a default standard for review of agency action (SG 13-14); (e) that the patent laws created a comprehensive statutory scheme for determination of patent applications by a specialized agency (SG 18-19); and (f) that proper administration of the patent system is important to the Nation's economic development (SG Br. 19-20). None, however, favors petitioner's argument; all are fully consistent with respondents' analysis herein.

mistake"). Subsequent cases generally applied the same or similar tests to measure whether the PTO's fact-finding was adequately justified. See, *e.g., Thompson v. Chapman*, 36 F.2d 300, 302 (CCPA 1929) ("We conclude, therefore, that the decision of the Board of Appeals . . . was not against the weight of the evidence, and was not clearly erroneous, and therefore is affirmed."). As is usual under the common law, courts occasionally used different terms to identify the test being applied. See, *e.g., General Motors v. Coe*, 120 F.2d 736, 737 (D.C. Cir. 1941) ("clearly wrong"); *Mantz v. Jackson*, 140 F.2d 161, 164 (CCPA 1944) (appellant has burden of showing that the decisions of the examiner and Board "are erroneous"); *Rodli v. Phillippi*, 154 F.2d 139, 140 (CCPA 1946) ("most cogent evidence of mistake and miscarriage of justice" in fact-finding); *Zublin v. Pickin*, 70 F.2d 732, 733 (CCPA 1934) ("material error"); see also *Fregeau v. Mossinghoff*, 776 F.2d 1034, 1038 (Fed. Cir. 1985) ("no substantive difference between 'thorough conviction' and 'definite and firm conviction'" and "the clearly erroneous standard" applied today). In addition, all opinions addressing the standard of review issue before 1947 "require[d] more rigorous review than is required by the APA." *Zurko*, 142 F.3d at 1454. The Federal Circuit summarized the case law being applied before the APA was adopted as the "clear error [test] or its close cousins." *Id.* at 1457; *see also id.* at 1455 ("manifest error standard . . . [is] at least a close cousin of the clear error standard").

When the APA was adopted in 1946, no one suggested that it modified the existing "clearly erroneous" standard which had been applied to review PTO fact-finding since at least 1894. Thus, the Court of Customs and Patent Appeals continued to apply it after 1946.[4] For example,

[4] The CCPA was established by Congress in 1929 to review, *inter alia*, patentability issues decided by the PTO Board. Pub. L. 70-

in *Ranney v. Bridges*, 188 F.2d 588, 596 (CCPA 1951), the court discussed the standard of review as follows:

> It will be understood that in considering allegations of error as to findings of fact made by the tribunals of the Patent Office this court follows the proper and well established practice of appellate courts in refusing to reverse such findings unless we are convinced from our own study of the record that the findings are manifestly wrong because [they are] against the weight of the evidence.

Accord *Application of Kunzmann*, 326 F.2d 424, 426 (CCPA 1964) (applying "clearly erroneous" standard); *Johns-Manville Corp. v. Ladd*, 328 F.2d 563 (D.C. Cir. 1964) (PTO fact-findings not overturned " 'unless clearly infected with error' "). *See also In re Kemps*, 97 F.3d 1427, 1430 (Fed. Cir. 1996) (reviewing cases).[5]

II. THE TERMS, STRUCTURE, PURPOSE AND INTERPRETATION OF SECTION 559 SUPPORT CONTINUANCE OF THE "CLEARLY ERRONEOUS" REVIEW STANDARD

Section 559, originally the final section in the APA, provides that the Act did not "limit or repeal additional

914, 45 Stat. 1475 (1929); see G. Rich, *A Brief History of the United States Court of Customs and Patent Appeals* 80 (1980). It was replaced by a newly created Federal Circuit established in 1982 to review, *inter alia*, patentability issues decided by the PTO Board. Federal Courts Improvement Act, Publ. 97-164, 96 Stat. 25 (1982).

[5] Despite petitioner's contention in a footnote that judicial review of PTO factual determinations did not employ "a uniform standard of review" (SG Br. 17 n.7), he has not presented or preserved the issue of whether there was a pre-existing review standard "otherwise recognized by law" under Section 12 in 1946 as a question for review by this Court. Both petitioner's formulation of the "question presented" by the case at bar and his argument make clear that the sole basis for petitioner's appeal is his claim that the "additional requirements" provision of 559 does not apply to 706(2). SG Br. 15.

requirements" being applied at the time it was adopted. As noted above, the Court of Customs and Patent Appeals applied the more demanding "clearly erroneous" standard of review of PTO Board decisions in 1946. The plain language of Section 559, its location as the final section in the original Act, the drafters' purpose of "restating" the existing standards of judicial review in Section 706(2) of the APA, and both contemporaneous and current interpretations of 559 that the APA did not repeal more demanding standards, fully support the Federal Circuit's conclusion that the "clearly erroneous" test was not displaced by the more deferential standards in 706(2).

A. The APA Continued The "Clearly Erroneous" Standard For Review Of PTO Fact-Finding

Section 12 of the APA, as originally enacted, Publ. Law 404, 79th Cong., 60 Stat. 237-244 (June 11, 1946),[6] provided:

> CONSTRUCTION AND EFFECT
>
> Sec. 12. *Nothing in this Act shall be held* to diminish the constitutional rights of any person or *to limit or repeal additional requirements imposed by statute or otherwise recognized by law.* Except as otherwise required by law, all requirements or privileges relating to evidence or procedure shall apply equally to agencies and persons. . . . No subsequent legislation shall be held to supercede or modify the provisions of this Act except to the extent that such legislation shall do so expressly. . . . [em-

[6] Section 12 of the APA was codified by Publ. L. 89-554, 80 Stat. 378 (September 6, 1966), into 15 U.S.C. 559; this codification changed both the wording and placement of Section 12 in the original Act but not its legal effect. See H.R. Rep. No. 901, 89th Cong., 1st Sess. 3 (1965); S. Rep. No. 1380, 89 Cong., 2d Sess. 18 (1966); see also *IT&T v. Local 134, IBEW*, 419 U.S. 428, 432 n.3 (1975) ("no substantive changes were intended"). However, because these differences may have contributed to the erroneous argument in petitioner's brief, we refer only to the original law in Section 12 in this brief.

phasis added; deleting sentences relating to the Act's effective date which are not relevant herein]

Petitioner argues that the first sentence of Section 12 either does not apply to "matters" addressed by the APA or applies only to additions relating to its "core provisions" on public information, rulemaking or adjudication but not to judicial review. SG Br. 15. But the text of Section 12 refutes these contentions. No language in either Section 12 or any other provision of the APA conditions or otherwise bars application of the "additional requirements" term to the judicial review provisions of the APA. An examination of the terms "additional" and "requirements" separately and as combined also makes clear that they "naturally" encompass more stringent standards for judicial review.[7] Contrary to petitioner's assertions, nothing in the language of Section 12 specifies that such addi-

[7] The word "additional" is an adjective meaning something "added" or "supplementary." *The New Century Dictionary* 15 (New York: D. Appleton-Century Co. 1946). Likewise the term "additional" is used in Section 12 to modify the noun "requirements" which is defined as something that is "demanded or obligatory" as a condition. *Id.* at 1531. When the two terms are combined, as in Section 12, they are meant to specify that added obligations imposed on agency procedures or court review which were recognized at the time the APA was approved, and which were more demanding than those set forth in the APA, were to continue in force.

Petitioner's *ipse dixit* that the language of Section 12 "is perhaps most naturally read to refer only to matters not addressed by the APA" (SG Br. 15) is not supported by normal usage, as petitioner seems to claim, or explained by italicizing the word "additional" in the term "additional requirements." Petitioner apparently would read the word additional as "in addition to but not otherwise covered by any provision of the APA" or as "not related to standards for judicial review"—but such limiting terms are not to be found in Section 12 and they cannot be inferred from any other source. On the other hand, Congress expressly added such a limitation in the second sentence of Section 12 (as quoted above) when it provided that all "requirements or privileges" of the APA apply equally to agencies and persons but only insofar as they "relat[e] to evidence or procedure."

tional requirements were continued in force only if "consistent with" or "not different from" the judicial review standards in the APA. See SG Br. 15-16. The sole requirement was that they be in addition to, *i.e.*, more rigorous than, the APA standard. Under the petitioner's reading of Section 12, that it applies only to unrelated requirements not covered by the APA, the term "additional requirements" in Section 12 would lose all meaning because "unrelated" requirements necessarily are not affected by the APA.

B. The Structure, Purpose, And Contemporaneous Interpretation Of The APA Support The Plain Language Reading of Section 559 That It Did Not Displace More Stringent Statutory Or Common Law Standards of Review

Petitioner argues that Section 12 cannot apply to the standards for judicial review set forth in the APA because "an important general purpose of the APA was to 'supplant a variety of pre-existing methods for obtaining [judicial] review that differed from one agency to another.'" SG Br. 16, citing *Cousins v. Dep't of Transportation*, 880 F.2d 603, 606 (1st Cir. 1989) (Breyer, J.). But *Cousins* does not support petitioner's argument that the APA overrode all pre-existing standards of judical review, and the hallmark of the APA's provisions on standards of review is their substantial flexibility in setting review minima and in permitting growth thereunder. See, *e.g.*, *Motor Vehicle Mfrs. Assn v. State Farm Mutual Auto. Ins. Co.*, 463 U.S. 29 (1983) (approving "hard look" review of rulemaking under "arbitrary and capricious" test).

The ruling in *Cousins* upon which petitioner relies did not in any way address the standard to be applied to review of agency fact-finding. It related solely to the issue of *obtaining* judicial review—*i.e.*, whether plaintiff had an implied right of action under another statute. (Indeed, the plaintiff in *Cousins* did not assert that his claimed private right of action existed at the time the APA was

adopted in 1946 or that it was an additional, more stringent requirement.) Rather, the plaintiff claimed that he was entitled to an implied right of action based on the Rehabilitation Act of 1973, 29 U.S.C. 794, adopted almost 30 years after the APA. Responding to this claim, the First Circuit, sitting *en banc*, unanimously held that plaintiff's cause of action could not be found under the Rehabilitation Act because it "rarely makes sense to find that a substantive statute creates an 'implied private right of action'" (880 F.2d at 606) and because the plaintiff already had a claim under the APA. *Cousins* makes no reference to Section 12 of the APA and pointedly notes that "Congress did not intend the APA to limit review available elsewhere." *Id.* at 605. In other words, the First Circuit recognized that additional bases for review continued after the APA became law and that the APA was not intended to displace them.

Petitioner also asserts, without support, that there is "no reason to think that [Congress] intended to preserve, rather than to eliminate, deviations from the norm it was prescribing" for judicial review in Section 706(2). SG Br. 17. But that is exactly what Section 12 was designed to do when either of two conditions was met: (a) that the "additional requirements [were] imposed by statute or otherwise recognized by law"; or (b) that "subsequent legislation" which "supersede[d] or modif[ied] the provisions of this Act . . . [did so] expressly." Petitioner's argument would make both the first and second conditions in Section 12 a nullity.[8]

[8] Subsequent statutes frequently impose standards of review different from those specified in the APA—*e.g.*, substitution of "substantial evidence" review for informal rulemaking. 15 U.S.C. 2060(c) (Consumer Product Safety Act); 15 U.S.C. 57a(e)(3)(A) (FTC Trade Regulation Rules); 29 U.S.C. 655(f) (Occupational Safety and Health Act). Those more stringent provisions are not overridden by the APA even when inconsistent with it because they are "unquestionably an 'express' alteration" modifying the APA terms pursuant to the final sentence of Section 12 (as quoted p. 11). *Assn. of Data Processing Services Orgs. v. Board of Governors*, 745 F.2d 677, 686 (D.C. Cir. 1984) (Scalia, J.). But under petitioner's argument, such "deviant requirements" would not be saved by the terms of Section 12.

In its lengthy consideration of the APA, Congress made it clear that the APA was an asymmetrical reform measure designed to *increase* the rigor of agency processes and *maintain* close scrutiny of agency actions, not to *lower* either. See 92 Cong. Rec. 2163 (1946), reprinted in Staff of Senate Comm. on the Judiciary, *Administrative Procedure Act—Legislative History 1944-46*, 351 (1946) (*Legislative History*) (Congressman Walter: APA was designed to check the abuses which inevitably follow "unlimited power."). The judicial review standards in 706(2) "assume[d] that if the notice, hearings, and finding procedures are adopted as recommended they will obviate the reasons for change in the area and scope of judicial review." *Id.* at 2163, quoted in *Zurko*, 142 F.3d at 1451; see also *Final Report of the Attorney General's Comm. on Administrative Procedure*, S. Doc. No. 8, 77th Cong., 1st Sess. 92 (1941) ("the machinery which it has recommended in this report for administrative adjudications will inspire confidence and will obviate the reasons for change in the scope of judicial review").

There are few contemporaneous interpretations on the meaning of Section 12. It was not proposed by the *Attorney General's Committee Report*, appeared for the first time late in the Act's development, and did not warrant separate analysis in the U.S. Department of Justice, *Attorney General's Manual on the Administrative Procedure Act* (1947) ("*Attorney General's Manual*"). The most complete interpretation of the first sentence of section 12 appears in the appendix attached to the Attorney General's Statement regarding the APA (also attached as Appendix B to the *Attorney General's Manual*) where then Attorney General Tom Clark stated:

> The first sentence of section 12 is intended simply to indicate that the act will be interpreted as *supple-*

menting constitutional and legal requirements imposed by existing law. (*Attorney General's Manual* 139) (emphasis added).

Clark's statement is supported by the *Manual's* explanation that the APA's judicial review provisions "must be carefully coordinated with existing statutory provisions and case law." *Id.* 93. See also Panel Discussion, *Present At The Creation: Regulatory Reform Before 1946*, 38 Admin. L. Rev. 511, 529 (1986) (Professor Kenneth Culp Davis on the meaning of the first sentence of Section 12: "Note that in that one sentence Congress recognized three kinds of law—constitutional law, statutory law, and common law. Nothing in the APA cuts back protections provided by any one of three. . . . Section 559 means that the APA may not be interpreted to add to or to subtract from common law rights. That is what the words clearly say.").

C. The Federal Circuit's Holding That a More Stringent Pre-Existing Standard of Judicial Review Overrides A More Deferential APA Standard Is Not Contrary To Decisions Of This Court

Petitioner argues that the decision below is inconsistent with four decisions of this Court. SG Br. 13-18. In fact, none supports his argument.

Petitioner cites footnote 7 in *American Paper Inst. v. American Elec. Power Serv. Corp.*, 461 U.S. 402, 412 n.7 (1983)—that "[i]n the absence of a specific command in PURPA [the agency's enabling statute] to employ a particular standard of review," the "standard prescribed in the Administrative Procedure Act for judicial review" governs—to argue that "[t]he absence of . . . specific standard does not . . . authorize a reviewing court to adopt whatever standard it deems appropriate under the circumstances." SG Br. 13. But the ruling in *American Paper* did not involve an interpretaton of Section 12 of the APA or consider in any way the interplay between the first sentence of Section 12 and the review standards specified in 706(2). It merely made the unexceptional point that in the absence of a more specific standard elsewhere, the APA is the default rule. See note 3 *supra*.

Citizens to Preserve Overton Park, Inc. v. Volpe, 401 U.S. 402 (1971) similarly did not involve an application of an APA review standard where a more stringent pre-APA standard was imposed by statute or otherwise recognized in law. Its application of the APA's "arbitrary and capricious" test where a post-APA statute contains no standard of review again merely supports the conclusion that the APA is the default standard in the absence of anything more specific in an agency's organic act or elsewhere (or under Section 12 of the APA).

Petitioner's reliance upon *Vermont Yankee Nuclear Power Corp. v. Natural Resources Defense Council, Inc.*, 435 U.S. 519, 543-49 (1978), to argue that the Federal Circuit improperly exceeded the proper bounds of review, is similarly misplaced. He contends that *Vermont Yankee* prohibits "interference" with an agency "to a greater extent than specifically authorized by the APA (or by some other applicable statute)." SG Br. 17. But *Vermont Yankee* does not limit the application of recognized standards for judicial review; it bars only the imposition of additional *procedural* requirements beyond those specified in the APA or "otherwise recognized by law" at the time the APA was adopted. See *State Farm*, 463 U.S. at 50 (rejecting argument that a more stringent interpretation of the APA standard of judicial review was contrary to *Vermont Yankee* and noting that it is not "a talisman under which any agency decision is by definition unimpeachable"); see also S. Breyer, *Vermont Yankee and the Court's Role in the Nuclear Energy Controversy*, 91 Harv. L. Rev. 1833 (1978) (*Vermont Yankee* al-

lowed "more stringent scrutiny of [agency] decision by the reviewing courts").

Nor is *Steadman v. SEC*, 450 U.S. 91 (1981) to the contrary. There the Court held that the burden of persuasion standard in APA adjudications is met by a "preponderance of the evidence" because that is the meaning intended by Congress when it adopted the APA. The petitioner in *Steadman* had made no claim under Section 12 that a statute or other recognized law imposed any additional requirement. In addition, *Steadman* involved only the procedures the agency was to follow, not the standard of review a court is to apply when reviewing agency action. See also *Director, OFWCP v. Greenwich Collieries*, 512 U.S. 267, 272 & 275 (1994) ("emerging consensus on a definition of burden of proof" includes burden of persuasion because that was its "ordinary meaning . . . in 1946, the year the APA was enacted").[9]

[9] Two recent interpretations of the opening sentence of Section 12 of the APA further support the Federal Circuit's holding that it applies to the judicial review provisions in Section 10(e). First, in *United States v. Menendez*, 48 F.3d 1401, 1409 (5th Cir. 1995), the Fifth Circuit held that a section of the Endangered Species Act, 16 U.S.C. 1531, 1540(a)(1) (ESA), specifying a more restrictive record on judicial review of agency enforcement actions overrode the less restrictive provision in 706(2) as follows:

> Section 12 of the APA, however, states that none of its provisions "limit or repeal additional requirements imposed by statute or otherwise recognized by law." 5 U.S.C. § 559. Thus, while we agree with the government that the APA is generally applicable to ESA, nevertheless the ESA's provision that judicial review be "on the record made before the Secretary . . . considered as a whole," without anything comparable to the "or those parts of it" language of section 10(e) of the APA, precludes our reliance on that portion of section 10(e). (*Id.* at 1409, footnote omitted).

Second, in *United Transp. Union-Ill. Legislative Bd v. Interstate Commerce Commn.*, 52 F.3d 1074 (D.C. Cir. 1995), the court expressly recognized that the APA's generic authority could be displaced by a more restrictive requirement established under long-standing agency practice. That case involved issuance by the ICC of a declaratory order outside of formal adjudications in 5 U.S.C. 554(e) where such orders are expressly authorized by the APA. The appellant had argued that the APA's declaratory order process in 554(e) set the outer limits of what the agency could do, and that it therefore could not use the declaratory order process except in a formal adjudication. However, the District of Columbia Circuit rejected this argument because, *inter alia*, Section 12 of the APA provides that none of its provisions "limit . . . additional requirements . . . recognized by law." *Id.* at 1079 n.10.

III. THE FEDERAL CIRCUIT'S UNANIMOUS REAFFIRMATION OF THE "CLEARLY ERRONEOUS" STANDARD IS SUPPORTED BY OVER A CENTURY OF EXPERIENCE AND SOUND POLICY REASONS

Petitioner's speculations of possible adverse consequences from continuing the century-old standard for judicial review of PTO decisions (SG Br. 19-21) are contrary to all experience under the "clearly erroneous" standard, principles of *stare decisis* and the policies Congress recognized in establishing the Federal Circuit in 1982. S. Rep. No. 97-275 at 5 (1982), reprinted 1982 U.S.C.C.A.N. 11, 15, 97th Cong., 2d Sess. (Federal Circuit created and assigned exclusive jurisdiction to review patentability and related issues so as to "produce desirable uniformity" and increase "doctrinal stabilty").

The "clearly erroneous" test reflects the fact-based nature of patentability and invention priority issues, see, *e.g., Graham v. John Deere Co.*, 383 U.S. 1, 17 (1966) (obviousness under 35 U.S.C. 103 dependent on "several basic factual inquiries"), and the specialized nature of the PTO process for issuing patents. Board proceedings, while adjudicative in nature because they apply patent law to grant or deny specific claims of the applicant, are conducted in *ex parte* hearings held without public notice (35 U.S.C. 122), do not permit oral testimony or cross-examination of adverse evidence (37 C.F.R. 1.133 &

1.195), and otherwise do not conform to the "closed record" procedures required in trial-type administrative adjudications. Neither patent examiners nor Board members are trained in record-creating and fact evaluation whereas such skills are required of independent administrative law judges. In addition, the Commissioner has unparalleled power to control who will participate in PTO Board decisions and thus to predetermine their findings. See *In re Alappat*, 33 F.3d 1526, 1536 (Fed. Cir. 1994) (*en banc*) (upholding Commissioner's power to add members to the Board on rehearing and thus "to control Board decisions through his authority to designate Board panels"); *id.* at 1535 n.10 ("Examiners-in-chief—[who serve as Board members] are appointed by the Secretary of Commerce upon nomination by the Commissioner. Thus, principles respecting the independence of judges or other concepts associated with the judicial process are not necessarily applicable to Board members."); compare 5 U.S.C. 3105, 5372, 7521 (assuring independence of ALJs from agency influence).

These distinctive fact-gathering procedures are justified by the technical and scientific issues that dominate the PTO and Board processes and the need to maintain secrecy in protecting the applicant's trade secrets if the application is denied. But the nature of that process also explains the less deferential review given PTO Board fact-finding, especially in light of the critical importance of accurate patentability decisions to applicants and the Nation's economy. Because fact-finding by the PTO Board is based solely on a paper record, the agency does not have a better view of the facts than the Federal Circuit. While the process of relying solely on a paper record is part of the justification for more demanding court review under the "clearly erroneous" test, that standard does not permit the court to substitute its judgment for the agency's regarding the facts to be found from the record. As with appellate review of trial court findings under the "clearly

erroneous" standard in F.R.C.P. 52(a), reversal of the Board's fact-finding requires a determination by the court not just that the evidence supports a different outcome but also that the court has a "definite and firm conviction that a mistake has been made." *In re Zurko*, 142 F.3d at 1449.

Finally, the patent system has been remarkably stable over time and the creation of the Federal Circuit has contributed to a more uniform interpretation of patent applications. Petitioner is unable to offer a convincing rationale for changing the standard of review of PTO fact-finding and for upsetting the equilibrium created by Congress and the courts between the PTO's modified fact-gathering procedures and the requirement of more intensive judicial review. No reasons to change the standard of appellate review were offered by the Commissioner to the lower court. See *Zurko*, 142 F.3d at 1458 ("While it is unclear what prejudice might befall patentees and patent applicants were the standard [of review of PTO fact-finding] to be changed, the Commissioner has made no suggestion that our current standard of review is unworkable, intolerable, prejudicial, burdensome, or even that it adversely affects the administration of the patent system."). Congress established the dual system of review of Board decisions by authorizing applicants a right of review to the Federal Circuit either directly from the PTO or after appeal first to the District Court, 35 U.S.C. 141 & 145. Modification of the standard of review applied in direct appeals would mean that a different standard of review would be applied to such appeals (*i.e.*, the APA standard) as compared with appeals from the District Court (*i.e.*, "clearly erroneous" under F.R.C.P. 52(a)). Petitioner offers no justification for such an anomaly that would follow from its argument; and the Federal Circuit has repeatedly criticized that possible result. *Gechter v. Davidson*, 116 F.3d 1454, 1459 (Fed. Cir. 1997) ("From a practical, judicial policy standpoint . . . patentability (validity) issues such as anticipation,

whether decided by the Board or by district courts, should be viewed similarly."); *Fregeau*, 776 F.2d at 1038 (such a difference in standards should not depend on "the review route chosen"); see also *In re Lueders*, 111 F.3d 1569, 1577 & n.14 (Fed. Cir. 1997) (Congress ratified long-standing "practice of appellate courts reviewing the PTO's boards [fact-finding] without enhanced deference" in 1982 Act). Petitioner's contention that the decision below, if allowed to stand, might "unsettle the law" by inviting other courts to alter their review standard of agency fact-finding (SG Br. 21) is rank speculation without record support. In fact, it is the threat of petitioner's proposed change in the settled standard of review that has "unsettled" the patent bar in this case.[10]

CONCLUSION

Contrary to petitioner's claim, it is the Commissioner of Patents who has sought to "aggrandize" his power by forcing a change in the century-old standard for review of fact-finding by the PTO and Board. The *en banc* Federal Circuit, on the other hand, examined his claims with care and unanimously decided that settled law should be followed because the current standard was carried forward by the Administrative Procedure Act. If that standard is to be changed at this late date, it is a decision for Congress to make. Under the circumstances, the petition for a writ of certiorari should be denied.

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[10] That the oral argument below drew a "standing room" crowd (SB Br. 22 n.9) is irrelevant and not a "compelling reason" for concluding that this is a case of exceptional importance warranting review by this Court. S. Ct. R. 10.

Respectfully submitted,

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